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THE RETURN OF THE PRODIGAL

By Harry Serwer

On January 26 the OPS issued an arrogant order known as the General Freeze. It was as cruel as a brat plucking wings off an insect, and for the same reason: The OPS didn't know any better. The order limited the ceiling of each item to the highest price it actually brought in the open market between December 19 and January 25, inclusive.

On the day of the Freeze every producer and distributor in this country -- bar none -- was committed for large blocks of merchandise at increased prices . . . prices which had been soaring, backing and filling since the inauguration of the Korean shindig. Much of this merchandise had been ordered many months before, and some at prices that were then shooting through the roof. The OPS said, in effect: "If you have goods coming in at high prices, that is your hard luck. You sell them at the ceiling even if you lose money."

Obviously, there wasn't a businessman in the whole nation who could add a legitimate markup to such merchandise without committing a crime; and so, at one fell swoop the OPS added a horde of criminals to the roster. Businessmen were frantically calling their lawyers and accountants and asking what course they should pursue; many were told to ignore the General Freeze, and so did. Others took it on the chin by adding the decreed profit which, in many instances, did not cover overhead.

The resentment and clamor became so great that the OPS ducked into a huddle, and on February 27 it came up with a directive captioned CPR 7, which replaced, in part, the retail stipulations contained in the General Freeze. It covered "more than 200,000 items" -- truly a gargantuan job for the Falstaffian misfits who had concocted it.

CPR 7 is known as a "divisional factor" directive. It aims to control prices by limiting ceilings to historical markups. The "divisional factor" is a formula introduced apparently to complicate matters.

A couple of vinegar plants got into the wine barrel. Business was asked to absorb all or some of the rising costs. Labor was busting through the 10 per cent wage rise limit, sending prices up still further. There was no real shortage because retailers were cutting prices on even such "critical" merchandise as television sets, furniture and electrical

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appliances in order to encourage sales and reduce inventories.

Indeed, there were fairly reliable reports that warehouses were clogged to the rafters with all sorts of commodities. One economist, who represents a number of substantial appliance manufacturers, told me that only 33-1/3 per cent of current accounts receivable were being collected. This meant that inventories were very heavy, and obviously as large as -- or larger than -- the capital and surplus of the business.

II

There is no need for Control at this moment, if the Department of Commerce is correct in its Survey of Current Business (January 1951 issue). The Survey reinterprets current unit production in 1939 dollars, and arrives at a unit increase of 70 per cent over 1941. This was accomplished with a labor increase of 24 per cent and a working-hour decrease of 10 per cent. Thus we have a weighted increase of 66 per cent in production. Since our armed forces are now limited to 3.5 million men as against 14 million in World War II, it would appear that we have ample production for both civil and war needs . . . unless the government plans monumental stockpiling beyond the needs of its own armed force. That may very well be. If the Administration proposes to stockpile any and all comers willing to take up arms against Russia -- then only does the General Freeze make sense.

Control must therefore be considered as a part of the psychological pattern for making the country war-minded again. War-minded people "patriotically" give up more and more of their traditional rights and freedoms. If there is no shortage, Control is meaningless: it is not only difficult to attain ceiling prices, but a demand may even develop for floor prices. If there is a shortage, Control is a successful device for generating black markets, because the latter are nothing more than free markets villified.

There are legitimate black markets as well as illegitimate black markets. If a retailer pays the ceiling price plus some cash under the table -- that is illegitimate. If the retailer says to the wholesaler, "Sell me 50 dozen of your rayon blouses and I'll feature your name in a newspaper page" -- that's legitimate.

In the first case the manufacturer received the cash direct. What did he do with it? He socked it away; or he in turn paid under-the-table cash for prime or semi-processed commodities, without which he couldn't continue business; or he tried to find some subterfuge to sneak that dough into his business (very difficult with a lot of OPA harpies snooping around for a fast buck).

In the "legitimate" case the retailer picked up the wholesaler's ad-

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vertising check (or the wholesaler picked up the primary producer's advertising check). Flip through World War II advertising pages and note how many resource brands were featured by wholesalers and retailers. The great majority were direct or implied deals for merchandise.

III

Another legitimate black market was called, "Copping the Double Profit". This was a diller. There were many large producers who, in peacetime, sold only to jobbers, sales agents and wholesalers. These producers wanted none of the headaches which come with "direct distribution". But in war shortages all these headaches disappear: production is king. So, these producers double-crossed their historical outlets and sold to the retailer directly. It paid off -- and how! Stealing the wholesaler's 10 or 20 per cent discount, and getting it without any additional overhead cost, was a windfall. It was legitimate but shockingly immoral; and yet a large number of America's substantial business firms went after that double profit. The gimmick was called "going vertical" -- very snooty terminology.

Another phase of the black market is the gadget racket. Sure, the auto dealer will sell you a new car at ceiling; but you must buy $600 worth of unneeded gadgets or you'll wait until Judgment Day. In fact, accessory gadgets provided more black market dough than the basic item.

Then there was the tie-in. If a pen was price-fixed at $3, it practically disappeared from the market; but the company which made it would brazenly insist -- or hint -- that if you wanted a "couple of dozen", you'd have to take, as a part of the deal, "a few" $64 pens and "one or two $125 sets". This was also indulged in by top concerns.

Another legitimate black market operation ran something like this. "A" needs black wiffnuff very badly. "B" has them and is confining his sale to his old customers. "B" sells strictly at ceiling -- not because he is honest, but because he is afraid of taking under-the-table cash. "A" tells "B" he has a hot tip on the market and that his is buying 200 shares for "B". "A" doesn't want the money just yet -- he'll lay it out and tell "B" when to send it. Three weeks later -- usually sooner -- "A" consults the stock market page, chooses a stock that has gone up 5 to 10 points, notifies "B" that he sold the stock at a profit and sends him a check for that profit. "B" knows it is a phony but keeps the dough; and in a day or two "A" gets all the black wiffnuff he needs at ceiling -- and why not? Sometimes "A" tells "B" he can get him an auto at "strictly ceiling". "A" pays the black market price and loses the difference; but the wiffnuff is worth a helluva lot more to him, because unfinished merchandise is piling up on him, waiting only for wiffnuff.

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Now, let me explain a very legitimate black market racket. Mr. Jones weaves "gray" (unfinished) goods. His ceiling markup is 10 per cent. The cloth cost 45 cents a yard to produce. He is legally entitled to 50 cents a yard. Jonesy is making a wad of dough on a nickel-a-yard profit, because his volume has doubled in a seller's market, his distribution cost is nil, and all the hazards of doing business have disappeared. But he is not satisfied.

He puts his nephew Willie into the converting business. (A converter buys "gray" goods and finishes them for the cutting-up trade or for retailing over the counter.) Willie's converting cost is about 20 cents a yard, which brings his total per yard up to 70 cents. He is legally entitled to a 17 per cent markup, which brings his selling price up to 85 cents a yard. But Jones, who is really Willie's undercover partner, is still not satisfied. So he puts his other nephew, Richard, into the jobbing business. As jobber, Richard is allowed a 12 per cent markup on the 85 cent cost. This now brings the cloth up to 95 cents a yard.

Is Richard allowed to sell the goods in the open market? Oh, no! Jonesy now scours the market for manufacturers who will give him a partnership for a nominal or no investment; and he, in turn, will supply them with all the cloth they will need. (Remember, this was in a period when any dope with a fabric allotment could open a hole-in-the-wall business and get all the orders he wanted.)

Now, you may be sure that Jonesy was at least an equal partner in each of these enterprises. The OPA allowed Jonesy a nickel profit. Instead, he wound up with that nickel plus half of the difference between 50 cents and the final 95 cents at the jobber's level. But that isn't all. Suppose he has an interest in a blouse factory which has a $60-a-dozen ceiling. There may be a net profit of $9 a dozen in a seller's market. Since a dozen blouses averages 25 yards, Jonesy splits half of another 36 cents a yard. That government-allowed nickel becomes 45 cents profit on a fabric which cost him 45 cents -- quite legitimate!

All this seems to be on the way back. The General Freeze is the royal red carpet for the Prodigal Son of the OPA.

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Not Merely Gossip *A Supplement to* Human Events Vol. VIII, No. 14

By Frank C. Hanighen April 4, 1951

WILSON IN THE WORKS: Sorting facts from rumors, we arrive at the following picture of the turbulent situation (in the last 96 hours) which threatens the position of Chief Mobilizer Charles E. Wilson:

(1) Wilson's temper has been rising to a fever high, because of a particularly diabolic strategy adopted by the labor leaders. At meetings, the labor men conspicuously stopped addressing the Chief as "Mr." and called him belligerently just plain "Wilson". Then, when discussions grew heated, some of the labor men used decidedly opprobrious language when talking to Wilson. Finally, some of them took to phoning Wilson after hours, starting an argument and winding it up with a volley of personal abuse. All this was obviously a deliberate plan to bait Wilson, exasperate him to the point where he would offer his resignation to Truman.

(2) Meanwhile, the former General Electric head continues to seek solace from Mr. Truman, who gives him praise and soothing words. Walter Trohan, in the Chicago Tribune on March 28, reported that Wilson wrote a memorandum containing a savage attack on the labor leaders, which Mr. Trohan read and approved -- but not for publication. However, the effect of the Tribune story on the temper of the labor leaders can well be imagined. Now their ire is also directed against the President.

(3) In the meantime, Eric Johnston's star is rising -- helped by various friends in the press. He is reportedly playing ball with the labor leaders and aims at getting Wilson's job.

(4) Impartial observers last week gave the opinion that the triumvirate of Wilson, Weinberg and Clay was tottering. Then, Clay resigned. Now there is betting as to just how long the structure will last.

(5) Wilson's triumphant report of progress last weekend can only be understood in the context of Freud, if one considers the labor leaders' strategy of personal abuse. He was justifying himself to himself. But his glowing progress report has brought against him criticism from quite another quarter than labor. Secretary of Defense Marshall -- according to those who are in a position to know -- has privately attacked Wilson for his report, saying that we are not getting on with the job and that Wilson's "progress propaganda" is only softening up the public morale (a favorite theme of the Secretary).

Thus far, this is the best available analysis of the Chief Mobilizer's plight. It is to be noted that, despite all provocations, Wilson hews to the line of a high ethical conduct -- no backstairs intrigues, no leaks to the press, no planted attacks on his labor adversaries, no squawking to members of Congress; he makes his complaints only to the President and he continues to ask whether the President will stand behind him. As we indicated last week, Wilson still fails to recognize that he is stumbling around in what is a real political situation. He perseveres pathetically in trying to maintain the deportment of a private company's production manager in the midst of the political jungle of Washington.

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TROUBLE AMONG GENERALS: Muffled sounds from the Joint Chiefs of Staff point to trouble brewing between the services on the strategy to be used in defending Europe. But there is far more to it than that.

The following account of the service conflict, as relayed to us, lights up not only high military considerations, but more importantly the mess which the Admini-

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stration has made of foreign policy and "troops to Europe".

It all goes back to the "private" budget (kept very "private" from the public) for Defense and the European Army. When the Chiefs drew the outlines of a ground defense of Europe, the bill in dollars was too high to disclose to Congress. So the published figures and estimates were made relatively moderate. It was calculated that the sums really needed could be raised later (that is, during this month or in the month of May) by requests for supplementary appropriations.

When this policy of "cover-up" was formed several months ago, it was expected that Eisenhower's backing would clear the way for troops-for-Europe approval in Congress. The intensity and prolongation of the Great Debate was not anticipated. The picture on the Hill, it was confidently believed, would be serene.

Serene, also, would be the situation in the Joint Chiefs of Staff. Vandenberg of the Air Corps and Sherman of the Navy gave their assent to the ground force plan for Europe. They were both promised planes and ships in sufficient numbers to placate them.

But an unlooked-for situation arose. The Great Debate, fed by public skepticism of the Administration's and the military chiefs' judgment, went on and on -- until this week the White House suffered sharp parliamentary reverses. Whatever the outcome on the floor of Congress, the mood of that body now seems definitely unfavorable to requests for bigger and bigger military appropriations. The Administration for some weeks had delayed bringing up the matter of financing, hoping for a more benign attitude on the Hill. Now, any early supplementary authorizations seem unlikely. Hence, the above-mentioned trouble in the Joint Chiefs.

For, without more money forthcoming, the "private" budget will have to be trimmed, and General Vandenberg of the Air Corps sees his promised 95 groups diminishing and Admiral Sherman envisages more carriers kept in moth balls. Meanwhile, former Air Chief Tooey Spaatz goes about making speeches favoring 250 air groups and critical of ground force defense of Europe.

Senator Kem's amendment of yesterday -- demanding a guarantee of sufficient air cover for the European army -- is a whiff of steam emanating from this intensifying struggle within the Staff. This situation could blow off, adding to the already menacing centrifugal forces undermining the weak Administration.

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OUT IN THE COUNTRY -- CINCINNATI: The world outside of the southern Ohio metropolis of Cincinnati has heard little of an episode which suggests that the fires of vengeance and race hatred lighted by the last war have not been entirely extinguished. What has happened in that city is not exclusively of local interest. State Department circles here believe it may have serious international repercussions.

Some weeks ago, a committee of prominent citizens proposed that the Ohio city "affiliate" itself with Munich, Germany, in a State Department program of cultural exchange. This program has been approved by the 81st Congress and under it students, community leaders and workers have been brought for visits to the U.S. and American leaders visit Germany. As William H. Hessler explained in the Cincinnati Enquirer on March 25: "Cincinnati has been singled out by the State Department as an ideal place to send many of the Germans brought over on this program, partly because of its Germanic background and traditional links with Germany, but principally because it constitutes a complex case of a successful American democracy on the municipal level."

Hence, much in the same spirit as other American communities "adopted" for relief purposes a starving German town in the difficult post-war years, Cincinnati now sought to obliterate the scars of war with a healing cultural exchange; and leaders selected Munich because it is approximately the same population and is a great music center, too. However, at the last moment, some dissidents in the American city protested that Munich should not be chosen because it was once a "hotbed of Nazism". So, the City Council postponed action last week on the matter, to the

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consternation of the State Department. Munich civic leaders had already welcomed the proposal and news of the hesitancy in Cincinnati can hardly have a happy effect in the Bavarian city. Even if the plan still goes through, it has suffered because some do not realize that Munich will be forever remembered, not for the Brown House, but because of its enduring treasures of art and music.

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OUT IN THE COUNTRY -- MISSISSIPPI MESS: Hardly noticed in the press, emissaries of the White House have hoisted a white flag of surrender in the inter-party feud with leaders of the States' Rights movement. The White House, which banned the so-called "Dixiecrat" members of Congress from Federal patronage in the past two years, has reversed itself, and granted patronage to Congressmen from Mississippi. This is an Administration step to try to check what could prove another damaging Congressional investigation, now being referred to as the "Mississippi Mess".

Nevertheless -- barring some unexpected deal -- the noise of still another scandal may soon add to the already considerable babble of muck-raking. On next Monday, April 8, in Jackson, Miss., Senator Hoey's Expenditures sub-Committee will open hearings on the sale of Federal jobs in the state of Mississippi -- the exposure of which scandal a month ago was smothered under news of other probes. The Mississippi affair, however, has even higher ramifications than that conducted by Kefauver, since it reaches right into the White House and Democratic High Command, with Bill Boyle and other Democratic chiefs mixed up in it. Nor will the Jackson show have any less color than the New York television exhibit. As conveyed to us from Jackson, testimony will show that Democratic politicos stood in the streets of Mississippi towns offering Post Office jobs to the highest bidder.

The show has been building up for some weeks. It is reported that a half dozen investigators have been down there gathering evidence; and Senator Hoey, a wheelhorse of the Southern bloc, has taken an active part. Newspaper correspondents from New Orleans, Memphis and other large neighboring cities have been assigned to cover the hearings.

It would be a pity if northern metropolitan papers ignore this matter. For the scandal touches a sensitive spot in the Democratic body politic. The sale of Federal jobs has been carried on by the rump faction of the Mississippi Democracy, the pro-Truman minority faction which fought the Dixiecrat majority in that state and, since 1948, has enjoyed the patronage dispensed by the Democratic High Command in Washington. The "Dixiecrat" majority, led by the State's officials, the two Senators and the Representatives -- has not exactly discouraged the exposure. And on Capitol Hill the latter have not been displeased by the Administration's white flag.

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BLACK BANKING: "Voluntary Credit Restraint" has been added to the American mores. The Federal Reserve System, acting under the authority of the Defense Production Act of 1950, has instituted a program of voluntary agreements among financial institutions "to eliminate loans which are not necessary to financing the defense program and are not essential to the needs of agriculture, industry and commerce". This obviously is a "combination in restraint of loans" and suggests a violation of the anti-trust laws; however, the blessing of the Justice Department has been obtained.

The purpose is to curb inflation. The theory is that by limiting credit you put a damper on production, which means that you hire less labor and you keep wages down; less wages mean less competition for goods and thus a lower price level. A collateral argument is that by discouraging loans you hold down the interest rate, something that is bothering the Treasury Department no end.

The policy of credit restraint is now on a voluntary basis. Experience has shown that measures of control always start that way, and when they do not work, as they never do, the tools of enforcement are applied. The purpose served by these voluntary schemes is purely psychological.

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Limiting credit for productive efforts does not prevent inflation; it does exactly the opposite. The more production the more goods, and every housewife is economist enough to know that more goods lowers the price level. Yes, bank loans create credit money, and that is inflationary. But, where the money is used to increase the volume of things men live by, its purchasing power is held in leash by this very abundance. The abundance is deflationary. And, as a rule, the money is retired when the need for it disappears.

Loans for financing the defense program, however, are decidedly inflationary. For, the wages paid out to defense workers increase the demand for consumable goods; and defense production does not increase the amount of these goods. Every defense loan simply swells the monetary demand for goods. That is inflation.

Voluntary credit control will not work, nor will the subsequent compulsory credit control accomplish the advertised purpose. All that will come from these measures is a black money market. Anyone who has the right security will find a lender, at an extra rate of interest or an under-the-counter bonus. Private lenders will supplant the banks. Nor is it impossible that directors of banks will personally make loans on gilt-edge securities, borrowing the money from their own banks on their own unsecured paper. It has been done in the past.

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SECURITY: The mirage of "social security" has so maddened the American people that one wonders what means can be employed to restore them to sanity. Economic rationalism seems to be of no avail especially since prevailing economic thought has been divested of rationalism. Perhaps psychology has the answer. One therefore welcomes the advent of a new book on the subject, The Way to Security, (Garden City, N.Y.: Doubleday and Company, $2.50), by an eminent scholar in the field, Henry C. Link. In an easy-to-read book, replete with interesting case histories culled from his wide experience, the author stresses the fundamental fact of security: that it is something one must find in himself, not in society; that it is spiritual, not economic. The book is a valuable addition to the small but growing modern library on individualism.

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CONTROLS: The Defense Production Act, under which the noncontrolling price-control nonsense operates, expires on June 30. A Congressional debate is in the offing. The Administration will, of course, demand an extension of the business; the opposition will offer changes with an eye to their publicity value. It is inconceivable that the idea of dropping the whole thing will be advanced. Politicians are averse to letting nature take its course. Nevertheless, we recommend to Congressmen a careful reading of "The Return of the Prodigal", by Harry Serwer, in this week's HUMAN EVENTS. This will at least furnish them with a picture of what will happen if and when attempts are made to enforce price control.

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SOCIAL SECURITY: The sum of $7.8 billion is the amount of the fund built up under the Social Security program for payment of unemployment benefits. The New York Times (March 29), says "the Treasury has invested practically all of this money in interest-bearing Government securities". That is to say, the money is all gone -- gone into Federal expenditures of one kind or another. All that remains are interest-bearing bonds. The interest will be met out of taxes; so that the unemployment benefits, when paid, will not come out of the taxes originally paid in as "unemployment insurance" but out of new taxes imposed at the time.

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